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ADVICE FOR LONG-TERM WEALTH MANAGEMENT

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Market fluctuations, changes to tax laws and political uncertainty can weigh heavily on day-to-day investment decisions. But considering a certain amount of ambiguity will always be a given, the best approach to wealth management is planning for the long-term – in particular, paying for a child's college tuition, exiting your business, retiring, ensuring long-term elder care is in place, and leaving assets to your family.

We asked four local professionals to share financial planning and accounting strategies for managing wealth through uncertainty and into the future.

What is your outlook for the stock market in 2019?

K. SHEA ABERNATHY: I anticipate a continuation of market volatility with moderate price appreciation.

BRETT TUSHINGHAM: Our risk management process is predicated on measuring trends in certain data points. Two of the most important trends for forecasting future market returns are growth and inflation. Both of those data point have been trending downward for most global markets over the past year.

If that trend continues, we would expect investments like treasuries, gold and bond proxies, such as utilities and REITs, to outperform. We are tactical in nature, which means, at the moment, we would overweight those sectors as part of a diversified asset allocation strategy.

ELDRIDGE DODSON: My role as an estate planning attorney is to work with clients to transfer their assets to beneficiaries of their choice in the most effective and tax-efficient manner. I do not give investment advice.

However, staying current on interest rates and the financial markets is often critical to my ability to provide the best advice to my clients. For example,

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some of the options available for transferring assets are more advantageous when the markets are down or when interest rates are low. Some powerful estate tax-reduction strategies were completed during the Great Recession for clients with taxable estates. Clients were able to transfer assets at a time when values were low, shifting appreciation once the markets recovered outside the client's taxable estate.

Strategic timing as to market highs and lows can make a substantial tax difference in planning for clients and their families. Recognizing those opportunities is part of my job.

What is the most common mistake people make in wealth management?

TUSHINGHAM: The most common are procrastination and not proactively planning your financial success. You need to take action, develop a plan and monitor it closely.

The last thing you want to do is act on whims and let emotions drive important decisions. Without a plan, you're going to have a tough time knowing where you're going and how close you are to achieving your objectives.

Once a plan is set in motion, you will want to be proactive and monitor it on a regular basis. In 2017, the rules surrounding calculating college financial aid changed. In 2018, the tax laws were overhauled.

These are just a few examples of how changes could have substantially impacted one's financial plan. Once again, establish a plan and be proactive.

DODSON: The most common mistake we see is the failure of clients to plan for their incapacity, for their long-term care, or for the care of their family members after their death. An individual's failure to plan may result in them having insufficient assets to care for themselves or their family.

If someone fails to plan for their incapacity, their inaction may result in the court choosing someone to serve as their guardian for the remainder of their life. A guardianship can be an expensive and burdensome process. If they fail to plan for their death, the court will choose their executor and North Carolina Statutes will control who inherits their assets.

ABERNATHY: Not having a financial plan and/or not sticking to a well-designed plan.

How is technology continuing to change the ways people invest and/or manage finances?

ADAM SHAY: Technology is really changing our financial lives. There is more data available to help predict your financial future and chances of meeting your goals. People can be connected to their financial information at any time and from anywhere.

On the individual side, you are seeing innovations in the area of data aggregation tools, new tools that can help you negotiate lower bills, and tools to make sure you are being smart with your finances. There's an app or an app in the works for just about anything you could imagine for our financial lives.

Where we are really seeing it change people's lives is for owners of small to medium-sized businesses. In the past, you had to be a large company to have real-time dashboards, business and intelligence, and data analytics. That's now within reach for all and can serve as a useful tool to help entrepreneurs reach their long-term goals.

You are starting to see now – and will continue to see – more fintech related to Artificial Intelligence (AI) and the blockchain. Both will really change the way we operate – AI by helping us make better financial decisions and remove some of the manual work of record-keeping, and the blockchain by making financial records more transparent.

ABERNATHY: It has added quick and easy access to vast amounts of information readily available to investors. Also, the world has become much more connected economically from technological globalization.

TUSHINGHAM: All the data you could want can now be accessed on your phone. Clients can buy and sell securities with a few clicks. Robo-advisors have emerged as an alternative investment platform for investors.

Technology has given consumers additional investment options and forced some financial advisors to become more transparent with their costs and validate their value proposition. This is great for consumers, as it allows them to compare fees and services to industry peers and make more informed decisions.

Are there benefits to working with a wealth advisor versus a robo-advisor?

TUSHINGHAM: Absolutely. Clients looking for a more proactive planning and investment approach or help with a specific transition, such as divorce, would probably be better suited working with a wealth advisor. In addition, some advisors work with a specific profession or demographic, which might appeal to some people.

Our "Personal CFO" service, for example, is targeted for physicians and executives. We plan all a family's financial affairs, from late-stage college planning, to retirement planning, to optimizing their Social Security.

We also coordinate with a team of professionals, including CPAs, attorneys, mortgage brokers and insurance agents, to ensure that nothing gets missed. This appeals to busy professionals with greater planning needs.

That being said, do-it-yourself investors with limited planning needs might be attracted to a robo-advisor. People seeking financial advice should have options, so they can match their needs with the appropriate services.

DODSON: We have found that clients benefit from working with a financial advisor. In addition to giving investment advice, often financial advisors have a strong relationship with their clients and are a great help in budgeting for retirement and ensuring the client has an adequate "rainy-day fund."

Also, often the financial advisor is the first to notice that a client is encountering memory issues or is the victim of elder abuse.

From an estate planning perspective,

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I often work closely with a client's financial advisor. A financial advisor understands the importance of taking steps to make sure that a client's assets will avoid probate, if that is a goal, or that the client's beneficiary designations are updated and consistent with the client's overall estate plan.

A financial advisor can help the client implement the steps that I have recommended. And after a client dies, a financial advisor often is there to help the client's family.

ABERNATHY: A good planner will help clients make sound choices when faced with the complexities of navigating the retirement, savings and investment maze.

They also are laser-focused on using a wide lens to provide holistic solutions to client needs. Robo-advisors are limited, in that they typically just provide systematic investment services at a discounted price.

How can investors be assured that new wealth-management technology is safe and secure?

ABERNATHY: As users of technology, it's up to all stakeholders to perform due diligence to ensure the technology platforms that are used have a sufficient amount of processes and safeguards in place to protect sensitive data.

SHAY: There are two ends of the spectrum here. Some people are too careless with their personal information and send that sensitive information unprotected/unencrypted, which can compromise personal account information and/or result in identity theft. Unfortunately, with all the data breaches in recent years, we see cases of identity theft and expect to continue to see that trend continue.

The other end of the spectrum is where people are afraid to do anything other than email and general internet browsing and reading. You should verify that financial sites have the appropriate security in place. However, you shouldn't be afraid to utilize new secure tools. We really encourage any sites where you can turn on dual-factor authentication. You should consider tools like LastPass to help make your passwords more secure and aggregated in a secure location.

What is fee compression and how does it impact investors and/or advisors?

ABERNATHY: The amount of fees charged by advisors is becoming smaller from scaling and leveraging technology, such as robo-advisors and centralized service models.

Advisors must adapt to the ever-changing tech climate or face extinction.

TUSHINGHAM: Technology has reduced the cost of doing business and consumers have more options than ever when it comes to automated investment platforms.

Advisors are being forced to justify their fees. A common consumer question might be, "Why am I paying over two percent in fees for limited planning and passive investing?" It's a valid question that advisors should be able to provide a quick answer to.

> "An individual's failure to plan may result in them having insufficient assets to care for themselves or their family."

ELDRIDGE DODSON
Estate Planning & Probate Attorney,
Ward & Smith, P.A.

How can taxes impact a person's long-term financial goals?

SHAY: Taxes can really impact your wealth by consuming your personal resources. If you are not wise about the impact of taxes on yourself and the decisions you make, you can pay an unnecessarily large amount of money towards taxes.

We really encourage our clients to take a proactive approach to taxes and to plan proactively. As an example, if you are a business owner, you should really be planning your year and the optimization and impact of taxes. If you are buying or selling a business, there are things you could and should be doing to protect more of your wealth.

If you are a smart and proactive business owner, tax breaks can be your friend. Understand what the new Qualifying Business Income (QBI) deduction can mean for you and what you can do to optimize the deduction.

If you are not a business owner, you can still be wise about tax breaks. Decide with retirement investment whether tax-deferred now or in the future makes more sense. Understand the changes under tax reform and the impacts on your itemized deductions.

TUSHINGHAM: An essential part of any financial plan is mitigating taxes. Families should ensure that they are obtaining 100 percent of the deductions and credits for which they are eligible at all times. This starts with optimizing retirement plans and encompasses tax strategies to ensure that their income stays below certain levels when possible. This ensures that they don't lose out on any available deductions, credits and even college financial aid.

The benefits of proactive tax planning can clearly be seen for families in the distribution or retirement phase of their life. When should we begin our Social Security benefits? Which accounts should we draw from first? Do we do the Roth conversion? All these decisions need to be coordinated to help minimize taxes and optimize cash flow, so clients can meet their lifetime spending needs.

What tax breaks are the most beneficial for small business owners to consider in terms of their wealth management?

TUSHINGHAM: Tax reform in 2018 brought about the deduction QBI. The deduction allows some business owners to take a deduction for up to 20 percent on certain business income on their personal returns. Any type of "pass through" business that is not a C Corporation is eligible. Not all income is eligible, and some businesses will lose the deduction above certain income limits, so proactive planning is necessary.

Business owners can also hire family members, which can provide a number of benefits. So long as the job is legitimate and pays a reasonable wage, parents can deduct the wages, reduce their taxable income and potentially qualify for a larger QBI deduction. Children usually pay nothing in taxes, thanks to their standard deduction ($12,200 in 2019), so the earned income makes them eligible to fund a Roth IRA and the employment provides them with valuable experience.

SHAY: Business owners are at a big advantage, as they have the most control over their tax situation. They can typically control their income and deductions more than employees do.

Consider retirement plans that are most tax-beneficial for their situation. Many business owners start with a Simple IRA retirement plan and after a year or two, migrate up to a 401K. As owners graduate to higher tax brackets and cash flow improves, they may consider adding a profit-sharing component to the 401K plan. If additional retirement savings and tax deferral are necessary, they are available.

With tax reform, a major new deduction is available to business owners in the form of QBI deduction. With proper planning, this deduction can greatly reduce the income taxes associated with business income. If you are a higher earner, you need to be sure to evaluate what needs to be done to optimize this deduction, as it can phase out for higher earners, although for many businesses, there are ways around that. As a result, there is more cash flow available for wealth accumulation.

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How can an exit plan help a small business owner effectively manage wealth?

SHAY: Most entrepreneurs have a large amount of their wealth tied up in their business. Exit plans or succession plans allow for a diversification of wealth. Those plans take time to execute on. You can't decide today that you are going to exit tomorrow. You typically need a minimum of three to five years to be ready for that. You want to exit when your financials are healthy and, ideally, you are showing growth.

There are complete exits, and there are partial exits and/or ownership diversification. These are two completely different things. While it is going to be business type-dependent, realize that it is rare upon a business exit that you are going to completely walk away from the business that day.

TUSHINGHAM: A proper exit plan will not only maximize the value of a business but also ensure that the seller has adequate assets to support their retirement needs. We see this firsthand, as most of our clients are physicians who have become partners in their firm and want to plan for that eventual day when they sell to someone else.

Most business owners are reactive when it comes to establishing an exit strategy and aren't prepared for a disability or death of a partner or haven't established a clear succession plan. Having an exit plan in place can protect owners from the unexpected, keep them in control and preserve what they have worked so hard to build.

What is your best piece of financial planning advice for self-employed individuals?

SHAY: To be proactive and to plan. Owning a business can be challenging, so take advantage of the tax benefits that it affords as far as deductions and saving for retirement. In addition, be sure that your business is as profitable as it should be and know on an ongoing basis how your business is performing.

We work with our Virtual CFO clients to implement key performance indicators (KPIs) to easily monitor the health of the business. In addition, we implement a set of tools that make it easy to follow and monitor the KPIs.

TUSHINGHAM: From a tax and retirement planning standpoint, I'd have the optimal benefit plans in place to attract talented employees and minimize taxes.

One-person and husband-and-wife businesses can take advantage of small business 401(k) plans, also called Solo 401(k)s, that have minimal expenses and maintenance and allow them to contribute over $50,000 each annually.

Larger firms should look to establish traditional 401(k) plans, 529 savings plans and flexible spending accounts for themselves and their employees. Most plans are now offered on digital platforms that allow for quick implementation and online onboarding of employees at reasonable costs. These plans offer tremendous tax benefits and can help attract and maintain employees.

How can people prepare now for future expenses, such as their children's college tuition?

ABERNATHY: First and foremost, start saving early. Even if it's small weekly amounts, those small acorns will grow over time when invested properly and controlling costs.

"If you are not wise about the impact of taxes on yourself and the decisions you make, you can pay an unnecessarily large amount of money towards taxes."

ADAM SHAY
Managing Partner,
Adam Shay CPA, PLLC

TUSHINGHAM: We blog about college planning extensively, as the cost of education is out of control. Families aren't receiving the advice they need from advisors, children are graduating with more student loans than ever, and parents are jeopardizing their retirement by subsidizing the tab.

For starters, start saving early in a college savings plan. There are a number of different plans, so you will need to do some research to determine the best fit. Savings grow tax-deferred and can be withdrawn tax-free for most school expenses.

You also need to employ late-stage college planning strategies that focus on college selection, financial aid, tax aid and wealth management. This should start before your children enter their junior year of high school. Some schools now cost over $300,000 to attend. You can't afford not to plan for it.

What advice would you give about transferring assets to future generations?

DODSON: After listening to a client's concerns and goals, I typically outline the pros and cons of various options to address their concerns.

Many clients choose to create trusts for their children and grandchildren who lack the experience or ability to manage wisely the assets they will inherit. In other instances, if a child or grandchild potentially has creditor issues, trusts can provide asset protection for beneficiaries.

For example, increasingly, parents worry about protecting the child's inheritance in the event the child divorces. In North Carolina, a divorcing spouse cannot reach assets held in trust for a child. For clients who want to ensure that their assets "stay in the family," trusts can be used to provide for a client's child, and then pass on to the client's grandchildren at the child's death.

TUSHINGHAM: This depends on what your goal is. From a tax standpoint, the estate tax exemption for 2019 is up to $11.4 million for each spouse. This means that you can leave up to $11.4 million to your heirs without paying any federal estate tax. The exemption is also portable, which means any unused exemption by one spouse can be transferred to the surviving spouse.

The number of households subject to estate tax should be minimal, thereby reducing the need for "estate reduction" strategies, such as annual gifting. That being said, gifting appreciated assets to people in lower tax brackets and charities can be an effective tax-planning strategy for paying less income tax.

If your goal is to have more control of the assets or protection from creditors, then other strategies should be explored.

A number of different trusts can be established for control, asset transfer and asset protection. Your estate plan should be coordinated with the rest of your financial plan to ensure that nothing gets missed.

ABERNATHY: Advise the importance of educating younger generations on financial prudence and setting realistic goals in order to reach the best financial outcome.

How do the investment practices of younger generations (i.e. Millennials and Gen Z) differ from those of their parents?

ABERNATHY: Most of those from younger generations leverage technology in some form or fashion to meet their financial needs in ways that work best for them.

Many share common interests in purpose-driven investment strategies, such as environmental, social, governance (ESG) and/or motif investing.

TUSHINGHAM: Younger generations are embracing technology. They do everything on their cell phone, from paying bills to viewing their investment

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statements. They are looking for mobile-enabled, user-friendly technology platforms to review their finances and conduct business.

Their parents are catching up to this trend, as most all of our clients prefer to receive their information online now. We currently meet these expectations with online account opening and transfers, client portals and online meetings.

How do you advise clients regarding income tax-deferred investments versus other investments?

SHAY: You need to work with a financial advisor to develop a plan that includes strategies regarding tax-deferred investments, as well as traditional investments. Don't let the tax tail wag the dog. All too often, people become over-fixated on the tax implications when they should be making smart, strategic decisions.

DODSON: Planning for retirement assets is a significant part of how we assist our clients. For many individuals, their retirement accounts make up the majority of their assets. These assets pass by beneficiary designation and are not controlled by the client's will or trust. It is crucial to make sure that the beneficiary designations on these assets match the distribution goals of the client.

Since distributions from an IRA are subject to income taxes, advising clients on options to minimize the income tax consequences to them and their beneficiaries is an important part of an estate plan.

If clients are concerned about asset protection or a beneficiary's ability to manage money, they may want to leave retirement assets in trust. In that case, we often need to include specialized provisions in their estate planning documents to avoid acceleration of distributions from the IRA and minimize income tax consequences.

For individuals who want to support charitable organizations during life or after their death, funding those gifts to charity from the individual's IRA can minimize income taxes, since charities do not pay income taxes on funds they receive from an IRA.

Another part of our retirement planning is to assist individuals in problem-solving if they have encountered a problem regarding the administration of their retirement account. In many cases, we are able to avoid potential penalties and negative tax consequences.

How can clients ensure their assets are used responsibly by their heirs?

DODSON: Trusts can be powerful tools for younger, inexperienced beneficiaries to benefit and gain the expertise and experience to manage their inheritance. The terms of the trust can be tailored to encourage financial responsibility and pass on the client's values. Many clients also want to include detailed provisions designed to incent their beneficiaries to work and be self-reliant.

Likewise, when trusts are utilized, clients can provide beneficiaries who are inexperienced in managing money with an opportunity to partner with someone more experienced in financial matters. Initially, someone with more financial experience – such as a trusted family member, friend or trust company – will serve as trustee and manage the inheritance.

Then, when the client feels the beneficiary is able to participate in decision-making, the beneficiary can become a co-trustee, which serves as a type of internship. Later, when the beneficiary has gained the experience and capacity, the co-trustee can choose to step down and allow the beneficiary to assume full control of their inheritance.

What should clients with existing estate plans do to prepare for the 2026 "sunset" of most estate planning provisions under the Tax Cuts and Jobs Act?

DODSON: In 2019, the estate tax exemption amount is $11.4 million per person; a married couple can leave $22.8 million to their family before estate tax is an issue. This is up from $5.49 million per person in 2017. However, if you do have a taxable estate, the tax rate is significant – 40 percent. Absent action from Congress, the exemption will return to the 2017 levels in 2026.

First, review your current plan. Clients should have an attorney review their existing estate plan to ensure it works in the current tax environment. Many documents, particularly those executed prior to 2010, contain complicated tax reduction planning that could be simplified and streamlined.

Second, consider implementing a plan that has flexibility. We typically include provisions in documents of clients with assets that exceed $7 million to allow flexibility in planning in the event the estate tax exemption is lowered. This planning takes advantage of the current high exemptions but also allows for post-death decisions or elections to be made and implemented to adapt if the current estate tax exemption sunsets as planned.

Third, consider making lifetime gifts – using the current high exemption levels before you lose them. As we get closer to Jan. 1, 2026, if it is clear that Congress is not going to take action to change the sunset, a client with a taxable estate under the former estate tax regime should consider making taxable gifts prior to the sunset.

The IRS recently issued proposed regulations providing that a taxpayer who uses the higher exemption through lifetime gifts will not be adversely affected when the exemption level sunsets (i.e., use it or lose it). Some gifting techniques allow clients to continue to have management responsibilities of the assets they transfer.

SHAY: The future is very uncertain, especially given the current political environment and several elections between now and the 2026 sunset.

The one piece of advice I would provide in general in regard to the sunsets is to optimize and plan specific to your situation based upon what is known now. You can't get too hung up on the unknown what-ifs about the future.

What are your top three investment tips for 2019?

ABERNATHY: Don't compromise on quality. Be deliberate on (good) asset allocation. Never let your emotions drive investment decisions.

SHAY: Be proactive and develop a plan. You need a roadmap to help you achieve success. If you are business owner, identify KPIs to help you know how you are executing on your plan.

Utilize tools and technology to have a better pulse on both your business and personal finances. They can help you plan better and track your progress with a given plan.

Give finances the time they deserve. Many people have an ostrich symptom when it comes to finances. Because they don't understand it or know they are not where they should be, they stick their head in the sand and pretend problems that should be addressed do not exist.

TUSHINGHAM: For parents with children in high school, develop a late-stage college planning strategy. Find a college where your child will fit in and garner merit aid. This is "free" money, such as scholarships and grants, that is not tied to your income or assets. College is an enormous investment and the primary funding tool should not be student loans or Mom and Dad's retirement assets.

Mortgage rates have come down and online money market rates have gone up as of late. Look for opportunities to refinance mortgages or consolidate other debts while making the same monthly payments, thereby not increasing the term.

Most banks are paying their clients next to nothing on savings. Explore online money market options that are currently paying over two percent, liquid and FDIC insured.

People in retirement need to take an honest assessment of the risks in their portfolio. Would they be willing to sit through another 50-percent correction as part of a buy-and-hold strategy or, more importantly, could they afford to if they are also drawing income from the portfolio? During this distribution stage they need to manage portfolio volatility and optimize how they turn investments into retirement cash flow.